

RFF Policy Commentary

What Economics Can Contribute to a Healthier Planet

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If you care about the planet, there's no better way to make your feelings known than to study up on your economics.

Money makes the world go 'round. Like it or not, our values and priorities have made this true. It is also no doubt true that free markets, left to themselves, are destroying our environment. We are eating endangered species from depleted seas while cooking the planet under a blanket of greenhouse gases. It is no longer a question of whether New York City will be under water if we don't turn things around. It is a question of *when*.

The forces are larger than any of us can directly influence, however much we like to think that by eating tofu and taking public transport we can make a difference at the necessary scale. Rather, we need to guide the collective power of billions to make the economic pie bigger for all of us without wrecking the planet.

The Lobster's Tale

Markets by themselves, like currents in a river, are neither good nor bad. Misguided, they can do untold damage; properly guided, they can be a force for good. Consider fisheries. Of the 11,000-plus fisheries in the world, more than a quarter collapsed during the second half of the 20th century. That is a damning verdict of the way we (mis)manage our oceans.

Lobsters are a good example, and a hopeful one at that. For centuries, our collective appetite was no match for their stock out at sea. Then, in the 19th century, we developed the technology to transport live lobsters and started to build canning factories. Lobster became cheaper; more diners demanded it,

raising its price; more lobster was caught; more canneries opened; lobster became cheaper; more diners demanded it—until suddenly, lobsters were scarce. By the late 19th century, Maine started to regulate the catch—limiting size and sex of lobster, who could fish, when and how—and even closed the lobster fishery entirely.

Then came the lobster gangs, self-organized lobstermen who cut the traps of anyone who violated the boundaries of traditional lobstering territories. Today, lobster tops restaurant menus everywhere, yet curiously, Maine's catch has been relatively stable.

Why? Gangs aim for self-preservation: preserving their families, their way of life, their territories—and the lobster stock at sea. If lobsters, a sedentary species, multiply on your own territory, it makes sense to let some go today for a greater haul tomorrow.

Bluefin tuna, sadly, is in the opposite situation. Catching it is a global scuffle, with factory ships chasing increasingly dwindling stocks in international waters. Letting tuna go today does not mean you will catch more next year. It means your competitor will catch them tomorrow. No one owns the territory where tuna roam, so it is in no one's interest to preserve the fish.

Private Thoughts

Open access ensures environmental catastrophe. Each farmer gains from adding that one extra cow to the pasture: He gets the full benefit of having one more animal graze for free while the additional cost is split among everyone. Garrett Hardin has mustered a cult following for lamenting the “tragedy of the commons.” (See Further Reading.)

Shift from cows to tuna, and it's apparent why every environmental economist in training reads Hardin—or at least finds him on her reading list. In truth, it's the kind of article that's eminently skippable. You already know what comes next: *privatize the commons*.

Turns out Hardin was making a much larger point, one about overpopulation. His conclusion: “The only way we can preserve and nurture other and more precious freedoms is by relinquishing the freedom to breed.” Seeing Hardin's conclusion in that light—and in combination with Paul Ehrlich's *Population Bomb*, which appeared the very same year—I suspect many economists would be more reluctant to point to Hardin as a prime example of the need to privatize the commons. Fortunately, there are plenty of others to point to.

Nobel Thoughts

Hardin never won a Nobel Prize for his thoughts, but another man whose writings are on everyone's reading list, with few bothering to read them, can claim the distinction: Nobel laureate Ronald Coase won the prize for showing that environmental problems will sort themselves out where there exist well-defined property rights.

That's at least the caricature of what he said. Coase actually picked up his Nobel "for his discovery and clarification of the significance of transaction costs and property rights for the institutional structure and functioning of the economy."

That's a mouthful. The two key ideas are transaction costs and property rights, and the Swedes might have put them in this order for a reason. Property rights are crucial, but we can't just assign those rights and ignore everything else, especially not when it comes to the costs of parties getting together and solving disputes among themselves—the transaction costs involved in any such encounters.

Some of Coase's ardent free-market disciples might wish it were as easy as putting property rights on everything and then letting individuals and courts figure out the rest. No need for government to step in. Sadly, that's often wishful thinking. Coase himself recognized as much and often disagrees with later interpretations of his thoughts. One of the better academic articles on Coase's writings has the promising title, "Coase versus the Coasians."

Taking government out of the equation might work if there are only two parties involved: a polluting factory and the victim of that pollution downstream. Then there's the real world. If the pollution in question affects an entire city, or the planet, the transaction costs will be enormous. Privately organized class-action lawsuits alone won't do. It takes government to step in.

There's also a grey zone. Sometimes, private actors are well equipped to define property rights and ensure they are enforced. Elinor Ostrom picked up a Nobel Prize for that important insight.

Systems that combine private efforts, public governance, and communities tend to manage resources best. And it's often the community function that has the biggest influence. Maine lobstermen don't encounter each other just once, or only at sea; they meet season after season, and every day in town.

The Global Prize

The crucial word is “manage.” The *unmanaged* commons make ruin inevitable. But no lobster gang can manage the oceans. Scaling up to the global commons, with millions of fishermen or billions of polluters, doesn’t look very promising. But there is a surprising twist to the comparison.

The world today has fewer countries than there are Maine lobstermen. When it comes to solving global problems, like atmospheric pollution, the conflict is among 200 countries, not 7 billion individuals. The scale is huge, but the scope is manageable. And these countries belong to a community: they meet for economic summits, trade agreements, and disarmament talks as well as environmental negotiations.

The number of countries that really matter is even smaller. It’s often up to Washington, Brussels, Beijing, Moscow, New Delhi, Tokyo, and a handful of others to maintain the global balance of power and keep the peace. Solving global commons problems could begin to look like sorting out who gets to place which lobster traps when and where.

In the end, it all comes back to a basic principle. If no one owns rights to a particular fishery or the ocean at large, no one will take care of it. The same goes for the atmosphere. *Property rights matter.*

Using property rights and markets doesn’t guarantee success. Trying to work against them, however, seems a sure recipe for disaster. If you care about the planet, there’s no better way to make your feelings known than to study up on your economics.

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